IPM Research Center

German Economic Team in Belarus

PP/12/04

Proposals for the development of micro-finance institutions in Belarus

Summary

Limited access to financing is one of the major impediments for small business development in Belarus. The best way to improve this situation is to promote the development of micro-finance. As shown by international experience, micro-finance institutions are better suited to provide loans to small businesses than conventional banks. In order to support micro-finance development in Belarus we make the following proposals related to micro-loan disbursements through the banking system. First, establish flexible collateral requirements. Second, eliminate the notarial certification requirement for most documents. Third, impose time limits for evaluation and authorization procedures. Forth, cash withdrawals and repayments of micro-loans should be authorized. Fifth, guarantee funds should be launched. In addition, it is crucial that the government provide a competitive environment for all types of micro-finance institutions. All forms of micro-lending institutions should be promoted. Finally, we recommend extensive collaboration with donor counties in order to tap into their abundant experience in the micro-finance field and their financing potential.

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1. Introduction

The development of a well functioning small business sector is one of the essential elements of the transformation process in a transition economy. When considering the political and economic reforms in Belarus made so far, a serious gap become evident between the government's declarations concerning small business support and the actual situation revealed by extensive surveys and statistical data[1]. Small business still remains underdeveloped and business initiative is relatively low. It is time to recognize the fundamental role of small business in creating jobs and contributing to economic growth.

The common challenges for small businesses in Belarus are a high tax burden[2], overregulation, and the difficult access to finance. The mainstream commercial banks consider small businesses to be extremely risky. On the one hand they are rarely able to provide sufficient collateral, and on the other, the bankruptcy rate among small businesses is very high. Disbursing small loans incurs high transaction costs relative to the loan size, which also discourages commercial banks from dealing with small business. As a result, in many countries of Eastern Europe (CEE) and within the Commonwealth of Independent States (CIS) conventional lending to small businesses is quite limited.

In response to an increasing demand for credit from small businesses special micro-finance institutions (MFIs) have emerged in many countries. Their primarily goal is to serve those who are considered unsuitable customers by the mainstream banks. At present micro-finance is one of the most rapidly growing industries. In Belarus, however, there are still too few micro-loan providers. Therefore, this paper focuses on ways to develop MFIs to be the primary agents to aid small business financing, which is vital for the economic and social stability in Belarus. The paper is organized as follows: in Part 2, the basic micro-finance terms and principles are presented. Part 3 discusses the most common types of MFIs. Part 4 describes the situation of micro-finance in Belarus, and Part 5 offers a set of policy recommendations to increase the availability of loans to small businesses.

2. Micro-finance basics

The definition of what constitutes a small business varies slightly from country to country, depending on the country's legal framework. Under Belarusian legislation[3] entrepreneurs not constituting a legal entity (individual entrepreneurs) and legal entities with a limited number of employees (in industry and transport of up to 100 persons, in agriculture and science of up to 60 persons, in construction and wholesale of up to 50 persons, in retail trade and personal services of up to 30 persons, and in other non-manufacturing sectors of up to 25 persons) are referred to as *small businesses*.

There is no strict definition of micro-finance either. For the purposes of our analysis, we will define *micro-finance*[4] as the efficient provision of small loans (micro-loans) for short periods to small businesses. The major providers of micro-finance products and services are micro-finance institutions (MFIs) that share the following common traits:

- Disbursing micro-loans,
- Minimizing transaction costs for clients,
- Minimizing processing time,
- Providing flexible collateral requirements, and
- Increasing the loan size based on a borrower's balance sheet and/or collateral, and based on a reliable credit history over time.

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[1] See Daneyko, P., Pelipas, I., and Rakova, E., (eds) (2003) *Belarusian Business*: *Current State, Trends, and Perspectives,* Minsk, Institute for Privatization and Management; *Improving the Business Environment*, World Bank (2003); and at http://www.ifc.org/europe/belarus.

[2] A more detailed analysis of the tax system in Belarus can be found at http://ipm.by/pdf/pp604e.pdf in PP/06/04 "Reform of the Simplified System of Taxation for Small Business in Belarus"

[3] "On government support of small entrepreneurship in the Republic of Belarus" adopted on October 16, 1996.

[4] In many countries micro-finance activities stretch beyond micro-loan provision. According to the Consultative Group to Assist the Poor (CGAP) micro-finance also assumes deployment of various financial products including savings, insurance, leasing, remittance, and different credit schemes. Such extended activities assist in the long-term sustainability of micro-finance institutions and their dynamic growth. This paper, however, focuses on the lending processes realized by micro-finance institutions, because of their importance to improve access for small enterprises to business financing.

The listed characteristics distinguish micro-finance technology from classical banking. It is the demand for specific financial products (micro-loans) by small businesses that dictates the development of this non-traditional approach to serving clients by tailor-made financial institutions. For example, items having an emotional value (e.g. wedding rings) and psychological pressure (former borrowers or relatives are required to sign as guarantors) may be used as a collateral. Also, little time and few employees are engaged in the decision making process for a loan. Thus, *micro-finance institutions* can be defined as financial intermediaries, whose primary task is to provide micro-loans to small businesses. A *micro-loan* is a small loan provided to a small business[5]. Conventionally MFIs aim either at assisting the poor in accessing finance, or at providing financial services to those who are not perceived as reliable clients by the banking institutions. The later is most relevant to Belarus, and thus we proceed with this assumption.

3. Types of micro-finance institutions

There are four major types of MFIs[6]:

- Credit unions;
- Nongovernmental organizations (NGOs);
- Commercial bank downscaling;
- Micro-finance banks.

3.1. Credit unions

Credit unions are not-for-profit organizations exclusively serving the needs of their members. Credit unions are member-owned and member-governed. A common bond usually determines their membership. The most wide spread types of common bonds include affiliation with a geographic location, a professional association, or a workplace (such as a mutual aid fund). To become a member of a credit union one has to comply with simple internal procedures and make a deposit. Their emphasis on savings (savings-first) distinguishes credit unions from other MFIs. This approach is of mutual benefit to both the credit unions and their members. On the one hand, the savings-first approach allows credit unions to be less subsidy-dependent than other MFIs, and thus maintain financial sustainability at their early stages. On the other hand, its members are usually willing to accept below-the-market interest rates on their savings deposits, thus making favorable interest rates for borrowers (themselves) possible. Despite certain legislative peculiarities, which vary from country to country, credit unions are easily created, since there is no need to license their activities, and there are no capital requirements such as apply to banks. Credit unions provide individual loans to their members. Low depositary requirements assist in a better outreach to lower-end enterprises. All these reasons accounts for the prevalence of credit unions among MFIs. Currently, Romania and Poland have the largest credit union networks; the small business outreach is also significant in Ukraine (Table 1).

Table 1. Credit Unions (as of September 30, 2001)

Country	Number of Credit Unions	Number of Credit Union Members
Bulgaria	13	11,067
Croatia	119	–
Georgia	79	8,956
Kyrgyzstan	206	12,544
Latvia	19	10,567
Lithuania	34	10,783
Macedonia	2	–
Moldova	206	20,968
Mongolia	86	2,116
Poland	640	481,800
Romania	4,304	1,570,424
Russia	62	26,080
Ukraine	122	111,493

Source: The State of Micro-finance in Central and Eastern Europe and the New Independent States (2003) http://www.mfc.org.pl/index.php?section=NET&page=Other.

[5] According to Article 11 of the directions on granting funds by banks in the form of loans and the rules for their repayment adopted by a Resolution of the Board of the National Bank of the Republic of Belarus dated December 30, 2003, No 226, a micro-loan can not exceed 7,500 base amounts, which is currently about USD 65,000.

[6] There are also financial cooperatives, various licensed and unlicensed non-banking institutions operating as micro-finance institutions; however, we only describe the models, which are currently predominant in the CEE and CIS.

The credit union appeal lies in its aim to serve members by providing minimal lending requirements, simple application procedures, and short processing times. Small lending amounts ensure an outreach to the lower end entrepreneurs in a country. Moreover, unlike other MFIs, credit unions are also widely represented in rural areas. However, the lack of availability of an external borrowing potential often crucially limits credit union development.

3.2. Nongovernmental organizations

Similar to credit unions, NGO lending institutions are not-for-profit organizations, which pursue the social aim of increasing living standards and creating jobs by providing loans to local small businesses. However, NGO lending institutions have the distinction of providing both solidarity group lending and individual lending. The former was developed by NGO lending institutions, while the latter is typical for all MFIs. The solidarity group lending method is based on the liability being shared by all group members (normally 4-6 persons); in other words, all group members guarantee each other's loans. Another advantage of NGO lending institutions is that they can serve informal well as registered businesses. NGO lending institutions are evenly presented in both urban and rural areas. All the above perfectly serves the need for improving small business financing and increasing their outreach. Unlike the other MFIs NGO lending institutions are not authorized to take deposits or use private equity sources, which makes them dependent on donor support, charitable contributions and/or government subsidies. Any profit an NGO lending institution makes is reinvested in its activities and is neither distributed to shareholders nor returned to the donors. Donor support allows for below-the-market interest rates at the early stages of their operations. Their long-term needs to maintain financial sustainability, however, forces NGO lending institutions to maintain certain levels of return at least sufficient to cover operating expenses and stimulates a gradual transition to charging competitive rates. In addition to not permitting deposits, NGO lending institutions are not allowed to provide many other services typically available from banking institutions. The necessity to increase the number of financial services, in order to sustain themselves, forces many NGO lending institutions to transform themselves into some kind of financial institution[7] in many countries. It was noticed that NGO lending institutions are quick to adopt the best practices of micro-lending, thus maintaining a high level of portfolio quality and efficiency and establishing financial sustainability. NGO lending institution development is a good prerequisite for microfinance bank creation, as Latin America's experience has shown.

3.3. Commercial bank downscaling

Commercial bank downscaling means providing micro-finance services by the fully licensed commercial banks. The Inter-American Development Bank tested the first downscaling program in the early 1990s. Later on the European Bank for Reconstruction and Development (EBRD)[8] adopted a downscaling approach, which was implemented in many CEE and CIS countries. Unlike credit unions or NGO lending institutions banks only serve the needs of registered businesses and not of informal entities. They also prefer to serve high end small businesses that provide ongoing operations, a good business experience, and potential for growth. Thus, downscaling programs are primarily intended for businesses that do not fit the mainstream commercial bank lending criteria, but are mature enough for loans above the average size provided by other MFIs. Of course, banks are less presented in rural areas. As shown by the survey by the Microfinace Centre for CEE and NIS, the small business outreach is quite limited by the banks. Residing mainly in cities and towns banks are focused on the small businesses in spite of the banks' wide branch network. Residing mainly in cities and towns banks focus on the small businesses in those areas. Despite the many complications arising when applying for a loan through the banking system, commercial banks have the valuable advantage of being able to provide many additional services to small businesses, which are usually beyond the competence of both credit unions and NGO lending institutions, as for example deposit accounts and housing loans. The new approach of the downscaling program to servicing micro-loans includes among other factors financing based not on conventional collateral but on rating the ability of a small business to generate cash flow and on assessing its reputation. The sustainability of the commercial bank downscaling programs still remains rather questionable. Lit-

[7] Moznosti in Macedonia, XAC in Mongolia, and Microcredit Montenegro have transformed from NGO MFIs into micro-finance banks.

[8] EBRD is not the only provider of downscaling programs. The Kreditanstalt für Wiederaufbau (KfW), Germany's development bank, has launched similar programs as well.

tle evidence exists that commercial banks will continue to assist small businesses in providing credit without donor or governmental support. However, one of the major advantages of commercial banks providing micro-finance is their potential to raise funds from different sources including grants, deposits, loans, and equity.

3.4. Micro-finance banks

Micro-finance banks are one of the newest organizational forms of MFIs. Micro-finance banks are full-fledged commercial banks serving the needs of small businesses. Same as any mainstream bank, it is a for-profit entity being fully regulated and supervised. Like NGO lending institutions micro-finance banks serve both registered and informal sector businesses. At the same time, they have all the characteristics of commercial banks serving the many other needs of their customers. Savings and checking accounts, money transfers, etc. are at the disposal of the small business.

Box 1. Micro-finance in Ukraine

The German-Ukrainian Fund was the first non-profit financial institution designed to provide funds to small business via commercial banks in Ukraine. It was established by the KfW (German development bank) on behalf of the German government together with the National Bank and the Ministry of Finance of Ukraine in 1996. As of December 31, 2002, approximately 8,000 loans totaling about EUR 50 m were issued. The average size of the disbursed loans has decreased from EUR 11,171 in 1999 to EUR 4,144 in 2002. Annual interest rates ranged from 12 to 18 percent for EUR denominated loans and from 20 to 28 percent for loans in Hryvna as of the end of 2002. It is estimated that about 10,000 jobs have been created by the German-Ukrainian Fund. Please note that fewer than 10 loans were written off, while arrears over 30 days comprised only 0.9 percent of the loan portfolio.

The remarkable success of the German-Ukrainian Fund has lead to the creation of the Micro Finance Bank Ukraine in December 2000. Increased use of micro-loan portfolios by many commercial banks has spun off from the Micro Finance Bank Ukraine's outstanding operation, which currently plays a benchmark role for the industry. At the end of 2002, only 0.5 percent of the outstanding loans were in arrears over 30 day. The average loan amount was equivalent to the USD 4,800, while over 60 percent of the disbursed loans were under USD 2,000. During 2002 Micro Finance Bank Ukraine provided 7,518 loans for USD 39.8 m. The outstanding loan portfolio was USD 58.8 m in 2003. Micro Finance Bank Ukraine was renamed into ProCredit Bank in 2003. Currently ProCredit Bank increases its outreach, setting up outlets all over Ukraine and expanding the variety of products and services provided. It has already disbursed a total of 24,372 micro and small loans for over USD 133.4 m since its inception.

Source: Mildner (2003). Micro-finance in Ukraine: a Model for Belarus? Belarus: a Choice of Direction, 44-52 and the update at http://www.wnisefk.com/CompanyProf.asp?sLang=EN&sCompanyCode=MFBU.

According to the research conducted by the Microfinance Centre for Central and Eastern Europe and the New Independent States credit unions are predominant in the region covered by the CEE and the CIS[9] (Table 2).

Table 2. Distribution of MFIs by type (as of September 30, 2001)

Types of MFIs	**Total Number of MFIs Identified**	**Total Gross Outstanding Loan Portfolio (million UDS)**
Credit Unions and Savings and Credit Cooperatives	5,892	408.4 (5,447)**
NGO MFIs (Micro-credit organizations, foundations, and private companies)	160*	107.9 (100)**
Commercial Bank downscaling	40*	125.1 (24)**
Micro-finance Banks	14*	158.2 (10)**
All MFIs	6,106	799.6 (5,581)**

Note: * as of December 31, 2002.
** the number of MFIs, which responded to the survey.
Source: The State of Microfinance in Central and Eastern Europe and the New Independent States (2003).

Studying the performance of various types of MFIs, it is useful to notice that the most highly developed network of MFIs (not counting credit unions) can be found in the Balkans, while Russia, Ukraine, and Belarus yet remain underdeveloped with rather limited numbers of MFIs relative to their populations (Table 3).

[9] Much information on micro-financing within the CEE and CIS - including surveys and analytical reports - can be found at http://www.mfc.org.pl in both English and Russian.

Table 3. Distribution of MFIs by subregion excluding credit unions
(as of September 30, 2001)

Subregion	Number of MFIs Identified
Balkans	45
Eastern and Central Europe	38
Caucasus	37
Central Asia + Mongolia	34
Russia/Ukraine/Belarus	25
Total	179

Source: The State of Microfinance in Central and Eastern Europe and the New Independent States (2003).

4. The current state of micro-finance in Belarus

Russia, Ukraine, and Belarus comprise the group with the largest populations and the lowest number of MFIs among the countries of EE and the CIS (Table 3). Therefore, what are the sources of financing for Belarusian small businesses? According to a survey conducted by the Institute for Privatization and Management, a little more than half of the surveyed small businesses (52.6 percent) used borrowed funds; the others relied totally on their own capital. The primary sources of external financing were the Belarusian commercial banks, in addition to private and legal persons (Table 4).

Table 4. Survey evidence on the external sources of financing for small business

Loan Providers	Number of Responses	Share of the Total Respondents, percent
Belarusian commercial banks	89	23.5
Private persons	86	22.8
Legal persons	47	12.4
State	14	3.7
Foreign commercial banks (in Russia, Latvia, Ukraine, etc.)	13	3.4
Leasing companies	9	2.4
Other	8	2.1
Belarusian Fund for Financial Support to Entrepreneurs	6	1.6
Total	258	71.9

Note: More than one answer could be marked.
Source: Daneyko, P., Pelipas, I., and Rakova, E. (eds) (2003) *Belarusian Business*: *Current State, Trends, and Perspectives,* Minsk, Institute for Privatization and Management, 69.

The results of this survey confirm the poorly developed micro-finance sector in Belarus, which is currently presented by:

- the consumer's cooperative "Mutual Lending Association of Small Enterprises STOLNY" (STOLNY),
- the Belarusian Fund for Financial Support to Entrepreneurs (BFFSE), and
- the EBRD downscaling program through Priorbank and Belgazprombank.

STOLNY was found on January 15, 2002. Being a credit union per se, it had 20 members by August 2002. The common affiliation is the geographic location, as all of STOLNY's members are either form Minsk or the Minsk region. According to Belarusian legislation, the membership fee was set at the minimum level of EUR 300. By the end of 2002 twenty-one loans had been disbursed for a total amount of USD 18,000. Unlike most credit unions, STOLNY is operating without financial support from either the government or donors[10].

The Belarusian Fund for Financial Support to Entrepreneurs is a not-for-profit organization that was created by the government in 1998. In this regard, it cannot be defined as a full-fledged NGO lending institution, however, it has a number of similar features. The major differences between the BFFSE and the other MFIs operating in Belarus are its pervasive dependence on government financing and the low (or zero) level of interest rate on loans. Every third applicant was granted a loan. The average loan amount was about BYR 10 m for periods of 6 to 12 months. The total sum of the disbursed loans was more than BYR 2.5 bn. The BFFSE operation has created some 800 jobs. About one fourth of the borrowers applies for loans repeatedly[11]. Currently the BFFSE position is rather precarious. Having been deprived of financial support from the government for the last two years and having previously charged below-the-market interest rates, the BFFSE's lending abilities are now rather limited. If it was not owned by the state it could

[10] More detailed information on STOLNY can be found at www.ovk-minsk.org.
[11] These data present an approximate evaluation of BFFSE operations by its employees up to to-date.

have raised funds from donors as have many other NGO lending institutions around the world.

The most efficient finance provider for small business in Belarus at this time is the commercial bank downscaling program established by the EBRD with Priorbank and Belgazprombank since April 2001. Since the inception of the program, about 1,000 loans have been disbursed for a total amount of USD 14.5 m as of January 2004. The average loan size ranged from USD 12,000 to 15,000. However, only 30% of the applicants were granted loans. Apparently, the downscaling program's capacities are not sufficient to finance every small business, nor are the joint efforts of all the presently operating MFIs in Belarus.

Box 2. Making sense of the small business problems in raising finance

According to the results of the IPM survey on small businesses in Belarus (2003) the biggest problem with loans is their high interest rates (assigned 4.08 points out of 5.0). Being concerned with minimizing the costs of running the business, small businesses are cut off the mainstream banking services. However, well-developed MFIs could have partially compensated for the high cost by improving loan accessibility and simplifying the paper work, i.e. by efficiently granting loans. The second largest concern is the lack of extending interest rate payments (3.43 points out of 5.0). International micro-financing practice has demonstrated that small businesses are generally very interested to follow the established time schedules for loan repayments, as proven by the low delinquency rates reported by most MFIs. According to the research conducted by the Microfinance Centre for CEE and the NIS the majority of MFIs have managed to establish an average delinquency rate of 3.4 percent (more than 30 days past due) as of September 2001. Commercial banks and micro-finance banks had only 0.37 and 0.69 percent of the portfolio at risk respectively. As of December 2002 the portfolio at risk indicator was 1.7 percent for NGO lending institutions and 0.9 percent for micro-finance banks. The lack of collateral was pointed out as the third problem (3.38 points out of 5.0). Micro-lending would perfectly respond to this issue. Past experience in many countries provides numerous practical alternatives for securing the portfolio at risk. Developed MFIs also pursue efficient solutions to the remaining problems stated by Belarusian small businesses: complicated procedure of drawing up documents (3.14 points out of 5.0), slowness of the decision making process for granting loans (3.03 points out of 5.0), and unclear criteria on providing loans (2.96 points out of 5.0). Evidently, the present MFI technology could overcome most of the small business problems with raising finance.

Source: Daneyko, P., Pelipas, I., and Rakova, E. (eds) (2003) *Belarusian Business*: *Current State, Trends, and Perspectives,* Minsk, Institute for Privatization and Management.

5. The way to go: policy recommendations

A strong banking sector is one of the basic determinants for successful micro-finance development. MFIs such as commercial bank downscaling and micro-finance banks are parts of the banking sector, while the financial sustainability of the others MFIs (credit unions and NGO lending institutions) is often too reliant on the availability of external funding, even from banks. To promote high quality micro-financing, using the world's best lending practices, the banking sector has to be restructured[12]. Eliminating the preferences for state banks, attracting foreign capital and permitting foreign bank branches to operate in Belarus, as well as eliminating subsidies to the real sector at below-the-market interest rates and introducing hard budget constrains for banks are some of the areas that should become part of the structural reform in the sector.

Table 6. Distribution of clients by geographic location, percent

Locations	Credit Unions	NGO Lending Institutions	Commercial Bank Downscaling Programs	Micro-finance Banks
Cities	24	34	73	69
Towns	27	30	20	19
Rural areas	49	36	7	12

Source: The State of Microfinance in Central and Eastern Europe and the New Independent States (2003).

Furthermore, the government must acknowledge the importance of micro-finance for small business development and create a supportive legal and regulatory framework to foster MFIs in the country. The building up of a flexible set of rules and regulations implies the creation of a competitive environment, where all types of micro-finance institutions are present. Please note that rapid increases in the volume and quality of micro-loans was observed in every country where competition among MFIs was encouraged. Competition among the non-banking MFIs and the mainstream banks promotes terms that best suit small business clients, including acceptable interest rates, longer terms, and tailor-made loans. Moreover, MFI outreach capabilities are essential. It has been observed that credit unions and NGO lending institutions are particularly efficient in serving small businesses in rural areas, while commercial bank downscaling programs and micro-finance banks prevail in cities (Table 6).

[12] For more information see PP/1/03 "Belarus' accession to the WTO: The banking services dimension" and PP/1/04 "Should branches of the foreign banks be allowed to operate in Belarus" http://ipm.by/pdf/PP104e.pdf.

Also, credit unions and NGO lending institutions tap the lower-end small business market, while commercial bank downscaling programs usually focus on higher-end clients and micro-finance banks fill the gap between the two. Thus, the government should promote the launching of specialized micro-finance banks along with bolstering conventional providers of micro-finance.

The present legal framework for micro-finance is limited and is regulated by general legislation in Belarus. So far the authorities have failed to create separate legislation for MFI operations, as most other CEE and NIS countries have, however, the first steps towards liberalization have been already put forward. Micro-lending through the banking system is currently regulated by the directions "on granting funds by banks in the form of loan and rules on their repayments" adopted by the Resolution of the Board of the National Bank of the Republic of Belarus dated December 30, 2003, No 226. Hence, we recommend the following amendments to the current banking regulations as a first step to improve small business access to financing and to creating a supportive environment for further MFI developments:

First, provide for flexible collateral requirements for micro-loans. Existing regulations restrict MFIs (commercial banks in particular) from taking risks through un-collateralized loan disbursement[13]. This consequently imposes limitations on micro-loan accessibility because small businesses either lack collateral or its registration cost is too high. Past experience with micro-finance proves the reliability of unconventional collateral techniques for micro-loans, as demonstrated by the excellent record of small business loan repayments (see Box 2).

Second, abolish the notarial certification requirement for documents that could be directly verified by banks. For example, instead of certifying bank signature cards by a notary, which is time consuming and costly, the authorized small business representatives could have their signatures authorized directly at the commercial bank, saving both time and money.

Third, reduce the time allowed to the governmental authorities to evaluate the required documents for a micro-loan provision. Where adequate collateral exists, the time required to issue a registration certificate to a small business has to be legally cut down to 1 to 2 days.

Forth, authorize micro-loan withdrawal and repayment in cash both in Belarusian rubles and in foreign currency along with existing cashless settlements[14]. This amendment would meet the demand for specific micro-finance products related to the peculiarities of running a small business.

Fifth, encourage the development of the guarantee funds[15] that are a means for leveraging small businesses to obtain micro-loans through commercial banks.

Moreover, applying a micro-finance promoting strategy should include cooperation with donor countries. Donor support is vitally important for fostering healthy MFIs as it includes both technical and financial assistance. The commercial bank downscaling that is currently starting in Belarus provides a good vehicle for donor countries to aid micro-financing per se. Evidently, a well performing downscaling program is likely to attract significant money from donor countries to develop other MFIs. The Ukrainian example clearly demonstrates the benefits of such collaboration for an economy (see Box 1). Since the growing demand for micro-loans is not likely to be met by the currently existing MFIs, supporting the above recommendations will improve small business financing and establish a positive trend in the micro-finance sector.

Minsk, September 2004
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[13] According to the President's Decree No 209 from 24.05.1996 "On regulatory measures of the banking activity in Belarus" and the revision of the Decree dated 06.08.2003, No 348, it is permitted to provide a guarantee without collateral coverage if the loan amount does not exceed 2,000 base amounts and only if the loan contract is concluded with the bank empowered to serve governmental programs (There are 6 such banks).
[14] The legislation currently in force (Resolution No 226) only provides for fund transfers in non-cash form to a borrower's Belarusian ruble account. Micro-loans in foreign currency are beyond the scope of the legislation.
[15] A detailed analysis on guarantee funds is presented in a book by Istomina, L. A., Kalmykova, M. N., and Ovseyko, S. V. (2003). International Experience on creating and activity of the guarantee funds.